

Devin M. Shanthikumar

Harvard Business School
Morgan Hall 377
Boston, MA 02163

dshanthikumar@hbs.edu
Office: (617) 495-6856
Fax: (617) 496-7363

ACADEMIC POSITIONS

July 2005-Present Harvard Business School, Assistant Professor, Accounting and Management
Hellman Faculty Fellow, July 2006 – Present

July 2004-June 2005 Harvard Business School, Post-Doctoral Fellow, Accounting and Control

EDUCATION

2000-2004 Ph.D. in Business Administration, emphasis in Finance,
Stanford University, Graduate School of Business

1997-2000 B.S. in Electrical Engineering and Computer Science, Summa Cum Laude,
University of California at Berkeley

Additional Programs: The General Managers Program, 7-week full time executive education program,
Harvard Business School, Spring 2005

 Colloquium on Participant Centered Learning, 10-day full time program designed for
faculty, Harvard Business School, Summer 2006

RESEARCH INTERESTS

Financial Accounting and Behavioral Finance; Investor Heterogeneity, Investor Cognitive Limitations, Role of Security Analysts, Effects of Investor Limitations on Firms, Money Managers and Analysts

TEACHING

Financial Reporting and Control for MBAs, Harvard Business School, 2005-2009
- Financial and Managerial Accounting, over 55 Cases

PUBLISHED RESEARCH

Are Small Investors Naïve About Incentives? (with Ulrike Malmendier), *Journal of Financial Economics*, 2007, 85:2, 457-489.

WORKING PAPERS

- Consecutive Earnings Surprises: Small and Large Trader Reactions (revise and resubmit)
- Do Buy-Side Analysts Out-Perform the Sell-Side? (with Boris Groysberg, Yang Gui, Paul Healy and George Serafeim, under review)
- Do Security Analysts Speak in Two Tongues? (with Ulrike Malmendier, under review)
- Geographic Location, Media Coverage and Investor Reactions (with Greg Miller)
- Returns and Risk in the Year After a Restatement Announcement (with Laura Frieder, under review)
- Round Numbers and Security Returns (with Edward Johnson and Nicole Bastian Johnson)

WORK IN PROGRESS

- Correlated Investor Attention: The Effect of IPO Waves on Already Public Companies
- Institutional Investors and Information Risk: Trading Around Restatements

TEACHING MATERIALS

- Leasing Computers at Persistent Learning, Harvard Business School Case, 108-014 (2007).
- Compass Box Whisky Company (with Romana Autrey), Harvard Business School Case, 108-032 (2007).
- Digital Link, Field Case (in Progress).

CONFERENCES AND INVITED PRESENTATIONS

- 2009-2010 American Accounting Association Annual Meeting, Presenter and Discussant (Aug)
- 2008-2009 American Accounting Association Annual Meeting, Presenter and Discussant (Aug)
- Center for Corporate Reporting and Governance Annual Conference (Sep), Winner of Best Paper Prize for “After a Restatement: Long-Run Market and Investor Response”
- University of Southern California (October)
- University of Utah (November)
- AAA Financial Accounting and Reporting Section (FARS) Meeting, Discussant (Jan)
- University of South Florida (March)
- University of Michigan (April)
- Boston Accounting Network of Developing Scholars (May)
- European Financial Management Association, Presenter and Discussant (June)
- 2007-2008 American Accounting Association Annual Meeting, Discussant (Aug)
- State Street Global Advisors (Aug)
- Cass Business School (Jan)
- London Business School (Jan)
- Manchester Business School (Jan)
- The University of Massachusetts at Amherst (March)

- New York University (April)
The University of California at Berkeley (May)
Early Career Women in Finance Mini-Conference (June)
Western Finance Association Annual Meeting, Discussant (June)
- 2006-2007 AAA Financial Accounting and Reporting Section (FARS) Meeting, Discussant (Jan)
The Seventh Maryland Finance Symposium, Behavioral Finance (March)
University of Minnesota (April)
European Accounting Association Annual Meeting, Presenter and Discussant (April)
Harvard Business School (May)
Purdue University (June)
Early Career Women in Finance Mini-Conference (June)
- 2005-2006 American Accounting Association Annual Meeting (Aug)
American Finance Association Annual Meeting, Discussant (Jan)
AAA Financial Accounting and Reporting Section (FARS) Meeting (Jan)
FMA Europe Annual Meeting, Presenter and Discussant (June)
Behavioral Decision Research in Management Conference (June)
- 2004-2005 Financial Management Association Annual Meeting, Presenter and Discussant (Oct)
JFE/Dice Conference on Agency Problems and Conflicts of Interest in Financial Intermediaries (Dec)
Massachusetts Institute of Technology (Apr)
Harvard Business School Information, Markets and Organizations (IMO) Conference (June)
Early Career Women in Finance Mini-Conference (June)
- 2003-2004 Stanford University (Oct)
Harvard Business School (Jan, Feb)
Northwestern (Jan)
University of Illinois at Urbana-Champaign (Jan)
University of Texas at Austin (Feb)
University of California at Irvine (Mar)
Western Finance Association Annual Meeting (June)
- 2002-2003 Stanford University (Nov)
London Business School's Third Annual Trans-Atlantic Doctoral Conference in Business Research (June)

OTHER PROFESSIONAL ACTIVITIES

Ad Hoc Referee The Accounting Review
 Contemporary Accounting Research
 Financial Management
 The Journal of Finance
 The Journal of Financial Intermediation
 The Journal of Law and Economics
 The Review of Financial Studies

Conference Committee Member

American Finance Association Annual Meeting, 2009
American Accounting Association Annual Meeting, 2009

Coordinator, 2006-2007, 2007-2008, 2008-2009 HBS Accounting and Management Unit Brown Bag Lunch Series (with Romana Autrey)

Member American Accounting Association, American Finance Association

HONORS AND AWARDS

2006 – Present	Hellman Faculty Fellowship, Harvard Business School Faculty Award
2008	Best Paper Prize, Center for Corporate Reporting and Governance Annual Conference, for “After a Restatement: Long-Run Market and Investor Response”
2003-2004	Jaedicke Merit Award for outstanding academic performance, Stanford GSB
2001-2002	Jaedicke Merit Award for outstanding academic performance, Stanford GSB
2000-2004	Stanford GSB fellowships
1998-2000	Barry M. Goldwater Scholarship, 1 of 304 scholarship winners nationwide
	Intel Women in Science and Engineering Scholarship
	Altera Scholarship
	Edward Frank Kraft Scholarship Prize
	National Merit Scholarship
	U.C. Regents Scholarship

ABSTRACTS

Are Small Investors Naïve About Incentives? (with Ulrike Malmendier), *Journal of Financial Economics*, 2007, 85:2, 457-489.

Security analysts tend to bias stock recommendations upward, particularly if they are affiliated with the underwriter. We analyze how investors account for such distortions. Using the NYSE Trades and Quotations database, we find that large traders adjust their trading response downward: they exert buy pressure following strong buy recommendations, no reaction to buy recommendations, and selling pressure following hold recommendations. This “discounting” is even more pronounced when the analyst has an underwriter affiliation. Small traders, instead, follow recommendations literally. They exert positive pressure following both buy and strong buy recommendations and zero pressure following hold recommendations. We discuss possible explanations for the differences in trading response, including information costs and investor naiveté.

Consecutive Earnings Surprises: Small and Large Trader Reactions

Prior research demonstrates that investors respond differently to earnings surprises that occur as part of a string than to those that do not but is inconclusive about why the market ascribes such importance to these earnings patterns. To shed light on this question, I compare the trading responses of small traders, whom prior research has shown to be relatively naïve, and large traders, whom prior research has shown to be more sophisticated, to earnings surprises that occur during strings of either positive or negative surprises. I find that the intensity of small traders’ buying (selling) activity in response to positive (negative) earnings surprise strings is positively related to the length of the string. That is, small traders initiate more purchases (sales) in response to positive (negative) earnings surprises that occur later in a string than to similar surprises that occur earlier in the string. In contrast, the intensity of large traders’ buying and selling activity in response to earnings surprises that occur as part of a string is independent of the length of the string. Moreover, I find that announcement period returns are related to the behavior of small traders. These results suggest that less sophisticated investors’ sensitivity to earnings patterns is a cause of previously documented pricing patterns for earnings surprise strings.

Do Buy-Side Analysts Out-Perform the Sell-Side? (with Boris Groysberg, Yang Gui, Paul Healy and George Serafeim)

We examined the performance of buy-side analysts' stock recommendations relative to those of the sell-side. Our tests show that buy-side analysts at a large investment firm made less optimistic stock recommendations than sell-side analysts, consistent with their facing fewer conflicts of interest. However, returns to their buy recommendations under-performed sell-side recommendations. Large sample tests that compared the performance of sell-side analyst recommendations and portfolio managers who relied exclusively on buy-side research confirmed the sell-side's superiority.

Do Security Analysts Speak in Two Tongues? (with Ulrike Malmendier)

Why do security analysts issue overly positive recommendations? We propose a novel empirical strategy to assess the relative importance of the leading explanations: strategic distortion, which reflects incentives to trigger small-investor purchases and please management, and non-strategic distortion, which reflects genuine over-optimism, due to self-selection or credulity. We exploit the concurrent issuance of recommendations and earnings forecasts by the same analyst to distinguish those motivations. While non-strategic distorters express their positive view both in recommendations and in forecasts, strategic distorters issue overly positive recommendations but slightly more negative ("beatable") forecasts. We find that affiliated analysts who have the most positive recommendations outstanding make the most negative forecasts. The same does not hold for unaffiliated analysts. Affiliated analysts are also more likely to distort forecasts downwards just before earnings announcements, allowing management to beat the forecast. Our findings indicate widespread strategic distortion, though the heterogeneity across analysts is large. We show that strategic distortion is persistent within individual analysts, with potential forensic implications.

Geographic Location, Media Coverage and Investor Reactions (with Greg Miller)

This paper examines a previously unexplored dimension of press coverage: geography. We ask whether regional newspapers, located near firms, provide greater coverage relative to national newspapers, and whether local investors disproportionately respond to this regional coverage. Our results show that regional newspapers cover nearby firms more often and with longer articles than national newspapers. Regional newspapers also issue a higher number of isolated articles, which do not clearly follow from a management announcement or other news event, and issue longer articles following earnings announcements. Combining a proprietary dataset of individual investor brokerage accounts with our hand-collected newspaper article dataset, we compare the use of press information by local investors, those who live near a firm's headquarters, with non-local investors. We find that local investors react significantly more strongly than non-local investors to articles published in the local/regional newspapers, even when restricting to investors who already hold the stock and thus have strong incentives to pay attention to firm-specific news. We find that the reaction of local investors to regional newspapers is significantly stronger among investors in more literate cities, suggesting that the choice to "read the paper" contributes to the stronger reaction of local investors, even controlling for costs to access the newspaper. Finally, we find little difference in local and non-local investor trading before news, and find that local investor trading predicts higher returns than non-local investor trading only on news article days, suggesting that a large part of the local advantage documented in prior literature is related to coverage by the press.

Returns and Risk in the Year After a Restatement Announcement (with Laura Frieder)

We extend prior work documenting negative immediate investor responses to restatement announcements by examining the stock returns of restatement firms in the year following an announcement. Using several alternative return measures, we document statistically and economically significant positive returns in the six months after negative restatement announcements, after controlling for the effects of traditional risk factors such as size, book-to-market and momentum. These returns are robust across a variety of subsamples formed on the basis of firm and restatement characteristics. We find that analyst forecast dispersion increases around restatement announcements and decreases 3-6 months afterward, consistent with an initial increase and subsequent decrease in firm-specific uncertainty and information risk. The post-announcement changes in forecast dispersion are significantly related to concurrent abnormal returns, consistent with the post-announcement decrease in information risk driving the positive post-announcement returns. Our evidence is largely inconsistent with the positive post-announcement returns being attributable to initial investor overreaction.

Round Numbers and Security Returns (with Edward Johnson and Nicole Bastian Johnson)

We document consistent differences in daily stock returns related to round numbers. In particular, we examine returns following previous day closing prices that are just above or just below round number benchmarks. We find, for both one-digit, two-digit and three-digit levels, that returns following closing prices just above a round number benchmark are significantly higher than returns following prices just below a round number benchmark. For example, at the one-digit level we find that returns following “9-ending” prices, which are just below a round number, such as \$25.49, are significantly lower than returns following “1-ending” prices such as \$25.51, just above the round number. Our results hold when controlling for bid/ask bounce, and are robust for a wide collection of subsamples based on year, firm size, trading volume and exchange. While the magnitude of the return difference varies depending on the type of round number examined, or the particular subsample used, the magnitude generally amounts to between 5 and 20 basis points per day (roughly 15% to 75% annualized). These results are equally strong across subsamples based on institutional ownership. We explore alternate explanations for the pattern.

Institutional Investors and Information Risk: Trading Around Restatements

Prior literature has shown that information risk increases around the time of a restatement announcement, and subsequently decreases over the following 6 months. We examine changes in institutional ownership in long windows surrounding restatement announcements to gain an understanding of institutional investor sensitivity to information risk. Transient and quasi-indexing institutions sell before the announcement but buy after, while dedicated institutions do not exhibit abnormal selling or buying around the restatement announcement. In addition, the event-time trading of dedicated (transient and quasi-indexing) institutions has some positive (negative) predictive ability for future returns. Finally, we find that the trading of quasi-indexers follows that of dedicated institutions with a lag, suggesting that dedicated institutions have a specific information advantage. Together, results suggest transient and quasi-indexing institutions are less willing to tolerate restatement-period increases in information risk and uncertainty than dedicated institutions, which have the most private information.